

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2012*

ROBIN KLENK, TREASURER

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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Accountant's Compilation Report

To the Madison Local School District Board of Education
Mansfield, Ohio

We have compiled the basic financial statements, as listed in the table of contents, for the Madison Local School District (the "District"), as of and for the year ended June 30, 2012. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 3 through 14, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. We have compiled such information without audit or review and, accordingly, we do not express an opinion or provide any assurance on it.

Julian & Grube, Inc.

November 13, 2012

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

The management's discussion and analysis of Madison Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets decreased \$3,721,282. Net assets of governmental activities decreased \$3,658,724, which represents a 14.37% decrease from fiscal year 2011. Net assets of business-type activities decreased \$66,558 or 18.12% from fiscal year 2011.
- General revenues accounted for \$26,875,452 in revenue or 77.90% of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$7,625,365 or 22.10% of total governmental activities revenues of \$34,500,817.
- The District had \$38,130,541 in expenses related to governmental activities; only \$7,625,365 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$26,875,452 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, building fund and classroom facilities fund. The general fund had \$29,077,889 in revenues and \$29,622,999 in expenditures and other financing uses. The general fund's fund balance decreased \$545,110 from \$5,337,435 to \$4,792,325.
- The building fund had \$2,825,595 in revenues and other financing sources and \$913,695 in expenditures. The building fund's fund balance increased \$1,911,900 from a balance of \$7,270,944 to \$9,182,844.
- The classroom facilities fund had \$6,645,167 in revenues and \$5,525,996 in expenditures and other financing uses. The classroom facilities fund's fund balance increased \$1,119,171 from a balance of \$19,922,862 to \$21,042,033.
- The District's two non-major enterprise funds are the adult education fund and the preschool fund. The adult education fund had \$1,143,969 in revenues and \$1,139,764 in expenses. The adult education fund also received transfers of \$25,000. The adult education fund's net assets increased \$29,205 from \$220,250 to \$249,455. The preschool fund had \$451,213 in revenues and \$519,270 in expenses. The preschool fund's net assets decreased \$68,057 from \$134,147 to \$66,090.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the general fund, building fund and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District perform financially during fiscal year 2012?" The statement of net assets and the statement of activities answer this question. These statements include all non fiduciary assets, liabilities, revenues and expenses, using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those net assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation, central, operation of non-instructional services, extracurricular activities, food service operations and interest and fiscal charges.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's adult education and preschool programs are reported as business-type activities.

The District's statement of net assets and statement of activities can be found on pages 15-17 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental funds are the general fund, building fund and classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 18-22 of this report.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 26 and 27. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 28-59 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets at June 30, 2012 and June 30, 2011.

	Governmental		Net Assets		Total	
	Activities		Business-Type			
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<u>Assets</u>						
Current assets	\$ 55,622,087	\$ 62,027,396	\$ 381,130	\$ 448,991	\$ 56,003,217	\$ 62,476,387
Capital assets, net	<u>8,276,653</u>	<u>4,882,301</u>	<u>37,328</u>	<u>38,275</u>	<u>8,313,981</u>	<u>4,920,576</u>
Total assets	<u>63,898,740</u>	<u>66,909,697</u>	<u>418,458</u>	<u>487,266</u>	<u>64,317,198</u>	<u>67,396,963</u>
<u>Liabilities</u>						
Current liabilities	11,963,451	11,748,122	86,609	104,799	12,050,060	11,852,921
Long-term liabilities	<u>30,165,766</u>	<u>29,737,328</u>	<u>31,155</u>	<u>15,215</u>	<u>30,196,921</u>	<u>29,752,543</u>
Total liabilities	<u>42,129,217</u>	<u>41,485,450</u>	<u>117,764</u>	<u>120,014</u>	<u>42,246,981</u>	<u>41,605,464</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	4,566,838	2,251,585	37,328	38,275	4,604,166	2,289,860
Restricted	9,708,201	12,966,986	-	-	9,708,201	12,966,986
Unrestricted	<u>7,494,484</u>	<u>10,205,676</u>	<u>263,366</u>	<u>328,977</u>	<u>7,757,850</u>	<u>10,534,653</u>
Total net assets	<u>\$ 21,769,523</u>	<u>\$ 25,424,247</u>	<u>\$ 300,694</u>	<u>\$ 367,252</u>	<u>\$ 22,070,217</u>	<u>\$ 25,791,499</u>

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

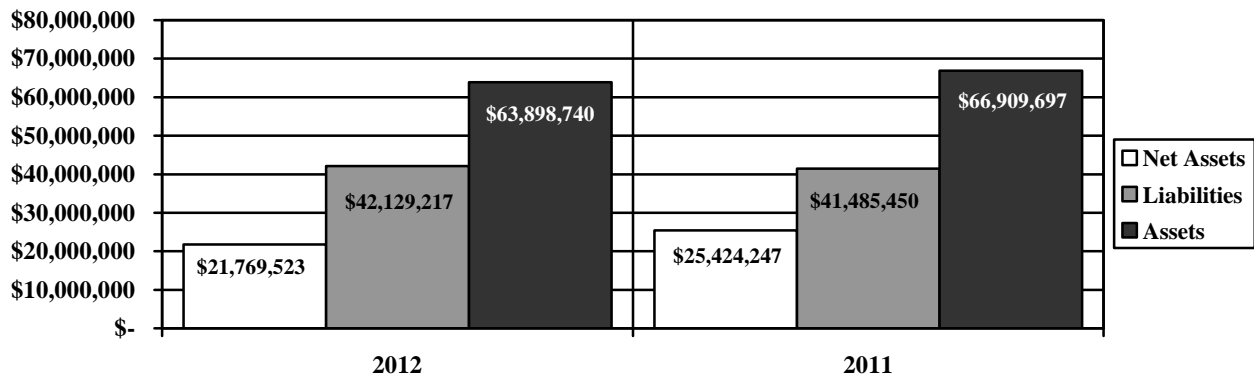
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$22,070,217. \$21,769,523 of this total is in governmental activities, and \$300,694 is in business-type activities.

Capital assets reported on the government-wide statements represented 12.93% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$4,566,838 in the governmental activities. These capital assets are used to provide services to students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

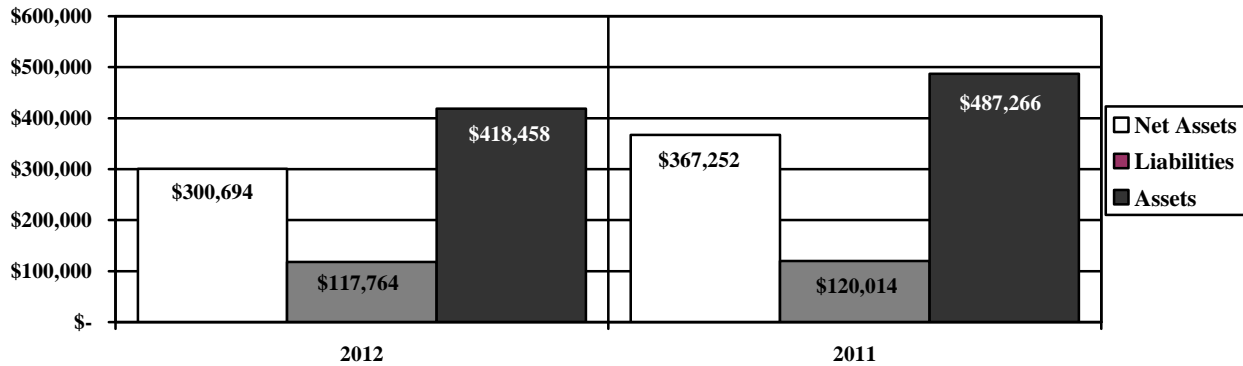
A portion of the District's net assets, \$9,708,201, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets is \$7,494,484.

The graphs below present the District's governmental and business-type net assets at June 30, 2012 and June 30, 2011.

Governmental - Net Assets



Business-Type - Net Assets



**MADISON LOCAL SCHOOL DISTRICT
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The table below shows the changes in net assets for governmental activities and business-type activities for fiscal years 2012 and 2011.

	Change in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services and sales	\$ 2,167,405	\$ 2,348,256	\$ 1,373,108	\$ 1,551,328	\$ 3,540,513	\$ 3,899,584
Operating grants and contributions	5,457,960	7,621,622	222,074	205,874	5,680,034	7,827,496
General revenues:						
Property taxes	9,867,652	9,529,492	-	-	9,867,652	9,529,492
Grants and entitlements, not restricted	16,332,377	15,608,625	-	-	16,332,377	15,608,625
Grants and entitlements, restricted	-	11,126,656	-	-	-	11,126,656
Payments in lieu of taxes	315,784	233,634	-	-	315,784	233,634
Investment earnings	131,196	156,974	-	-	131,196	156,974
Miscellaneous	228,443	207,874	-	-	228,443	207,874
Total revenues	<u>34,500,817</u>	<u>46,833,133</u>	<u>1,595,182</u>	<u>1,757,202</u>	<u>36,095,999</u>	<u>48,590,335</u>

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These two revenue sources represent 75.94% of total governmental activities revenue. Property tax revenue increased 3.55% from the prior year due to tax collections during the year and higher delinquent taxes due to the District at June 30, 2012 which is recognized as revenue on the government-wide financial statements, while payments in lieu of taxes increased 35.16% due to increased receipts for tax abatements during fiscal year 2012.

Operating grants and contributions program revenues decreased 28.39%, primarily due to the reduction in federal funding from education jobs, Title VI-B, and state fiscal stabilization grants, the revenues of which decreased \$659,120, \$528,410, and \$991,467, respectively, during fiscal year 2012; in the governmental activities, these grants were recognized as revenue in the year in which the District was granted funding, while on the fund financial statements the District did not recognize revenue until grant proceeds were received or available for spending (see Note 2.D).

The District has been granted funding from the Ohio School Facilities Commission for a school facilities construction project. On the government-wide financial statements, the amount of this grant was recognized as revenue in its entirety during fiscal year 2011.

**MADISON LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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(SEE ACCOUNTANT'S COMPILATION REPORT)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<u>Expenses</u>						
Program expenses:						
Instruction:						
Regular	\$ 12,464,580	\$ 12,316,213	\$ -	\$ -	\$ 12,464,580	\$ 12,316,213
Special	3,625,553	3,618,621	-	-	3,625,553	3,618,621
Vocational	2,967,009	3,093,681	-	-	2,967,009	3,093,681
Adult/continuing	90,358	82,658	-	-	90,358	82,658
Other	2,719,438	2,443,050	-	-	2,719,438	2,443,050
Support services:						
Pupil	1,320,351	1,310,623	-	-	1,320,351	1,310,623
Instructional staff	1,985,779	1,694,987	-	-	1,985,779	1,694,987
Board of education	43,982	54,943	-	-	43,982	54,943
Administration	2,487,434	2,692,062	-	-	2,487,434	2,692,062
Fiscal	662,743	570,406	-	-	662,743	570,406
Business	72,654	60,889	-	-	72,654	60,889
Operations and maintenance	3,202,761	3,078,466	-	-	3,202,761	3,078,466
Pupil transportation	1,680,463	1,524,751	-	-	1,680,463	1,524,751
Central	259,350	315,785	-	-	259,350	315,785
Operation of non-instructional services:						
Other non-instructional services	458,328	537,809	-	-	458,328	537,809
Food service operations	1,344,705	1,231,819	-	-	1,344,705	1,231,819
Extracurricular activities	840,843	565,680	-	-	840,843	565,680
Interest and fiscal charges	1,904,210	1,071,002	-	-	1,904,210	1,071,002
Adult education	-	-	1,167,456	1,110,235	1,167,456	1,110,235
Preschool	-	-	519,284	625,839	519,284	625,839
Total expenses	<u>38,130,541</u>	<u>36,263,445</u>	<u>1,686,740</u>	<u>1,736,074</u>	<u>39,817,281</u>	<u>37,999,519</u>
Transfers	<u>(25,000)</u>	<u>(25,000)</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>-</u>
Changes in net assets	(3,654,724)	10,544,688	(66,558)	46,128	(3,721,282)	10,590,816
Net assets at beginning of year	<u>25,424,247</u>	<u>14,879,559</u>	<u>367,252</u>	<u>321,124</u>	<u>25,791,499</u>	<u>15,200,683</u>
Net assets at end of year	<u>\$ 21,769,523</u>	<u>\$ 25,424,247</u>	<u>\$ 300,694</u>	<u>\$ 367,252</u>	<u>\$ 22,070,217</u>	<u>\$ 25,791,499</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$3,654,724. Total governmental activities expenses of \$38,130,541 were offset by program revenues of \$7,625,365 and general revenues of \$26,875,452. Program revenues supported 20.00% of the total governmental expenses.

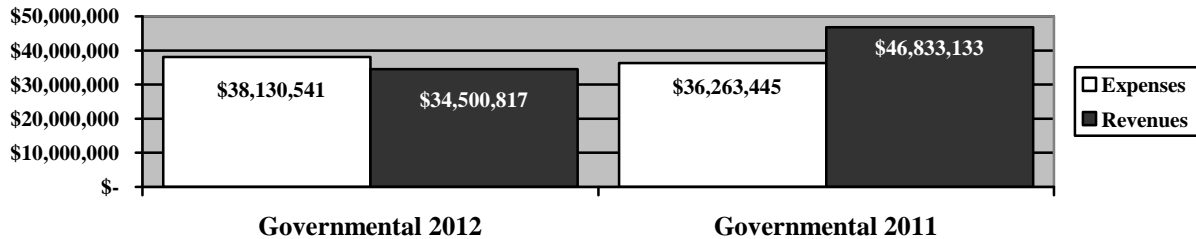
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements not restricted to specific programs. These two revenue sources represent 75.94% of total governmental revenue. Real estate property is reappraised every six years.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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(SEE ACCOUNTANT'S COMPILATION REPORT)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2012 and 2011.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2012 and 2011. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Program expenses:				
Instruction:				
Regular	\$ 12,464,580	\$ 10,874,554	\$ 12,316,213	\$ 9,336,755
Special	3,625,553	1,448,477	3,618,621	1,120,915
Vocational	2,967,009	2,316,569	3,093,681	2,440,562
Adult/continuing	90,358	4,155	82,658	3,591
Other	2,719,438	2,719,438	2,443,050	2,302,716
Support services:				
Pupil	1,320,351	1,216,567	1,310,623	1,093,791
Instructional staff	1,985,779	1,315,345	1,694,987	852,293
Board of education	43,982	43,982	54,943	54,943
Administration	2,487,434	2,367,595	2,692,062	2,535,222
Fiscal	662,743	662,743	570,406	349,396
Business	72,654	72,123	60,889	60,308
Operations and maintenance	3,202,761	3,187,001	3,078,466	3,074,516
Pupil transportation	1,680,463	1,542,032	1,524,751	1,392,115
Central	259,350	214,839	315,785	263,156
Operation of non-instructional services:				
Other non-instructional services	458,328	18,536	537,809	89,468
Food service operations	1,344,705	(46,250)	1,231,819	(157,258)
Extracurricular activities	840,843	643,260	565,680	410,076
Interest and fiscal charges	<u>1,904,210</u>	<u>1,904,210</u>	<u>1,071,002</u>	<u>1,071,002</u>
Total expenses	<u>\$ 38,130,541</u>	<u>\$ 30,505,176</u>	<u>\$ 36,263,445</u>	<u>\$ 26,293,567</u>

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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The dependence upon tax revenues during fiscal year 2012 for governmental activities is apparent, as 79.40% of instruction activities are supported through taxes and other general revenues. In fiscal year 2012, 80.00% of total governmental activities program expenses were supported by general revenues. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio as a whole, are the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2012 and 2011.



Business-Type Activities

Business-type activities include adult education and the preschool. These programs had revenues of \$1,595,182 and expenses of \$1,686,740 for fiscal year 2012. The District's business-type activities receive no support from tax revenues.

The District's Funds

The District's governmental funds reported a combined fund balance of \$36,009,274, which is greater than last year's total balance of \$34,156,478. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and June 30, 2011.

	Fund Balance June 30, 2012	Fund Balance June 30, 2011	Increase (Decrease)
General	\$ 4,792,325	\$ 5,337,435	\$ (545,110)
Building	9,182,844	7,270,944	1,911,900
Classroom Facilities	21,042,033	19,922,862	1,119,171
Other governmental	992,072	1,625,237	(633,165)
Total	\$ 36,009,274	\$ 34,156,478	\$ 1,852,796

General Fund

The District's general fund balance decreased \$545,110 during fiscal year 2012.

Revenues of the general fund decreased \$289,407 or 0.99% during fiscal year 2012. Taxes in the general fund decreased \$603,003 or 5.91% due to lower collections during fiscal year 2012 and a decrease in the amount of property taxes available as an advance from the Richland County Auditor at June 30, 2012. The amount of tax advances available from the County Auditor can vary depending upon when tax bills are distributed. Tuition revenue decreased 9.26% due to a reduction in revenues for open enrollment, while payments in lieu of taxes increased 35.16% due to increased collections for tax abatements received by the District. Earnings on investments decreased \$20,499 or 25.12% due to changes in interest rates and the timing of maturity dates related to the District's depository and investment accounts, which include federal agency securities maturing in future fiscal years. All other revenue remained comparable to the prior fiscal year.

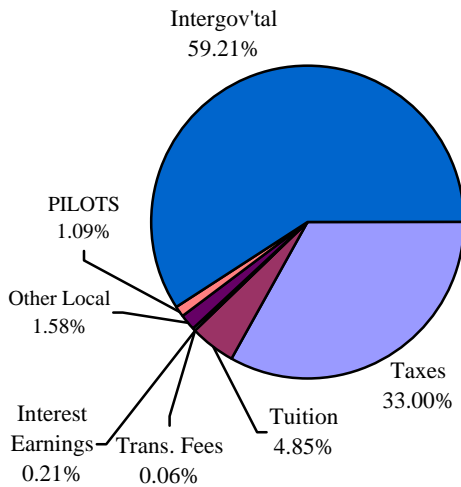
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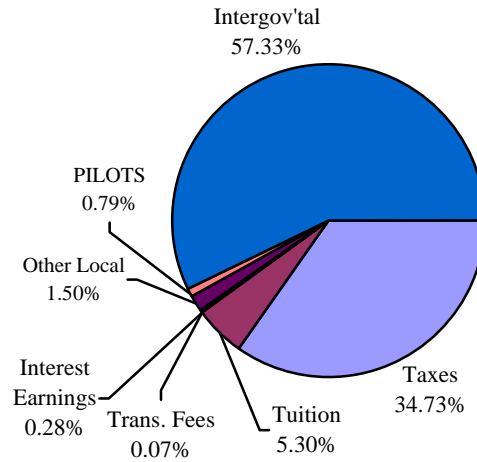
The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2012 Amount	2011 Amount	Increase (Decrease)	Percentage Change
Revenues				
Taxes	\$ 9,595,542	\$ 10,198,545	\$ (603,003)	(5.91) %
Tuition	1,411,419	1,555,383	(143,964)	(9.26) %
Transportation fees	17,690	20,140	(2,450)	(12.16) %
Earnings on investments	61,104	81,603	(20,499)	(25.12) %
Other local revenues	458,601	440,045	18,556	4.22 %
Payments in lieu of taxes	315,784	233,634	82,150	35.16 %
Intergovernmental	<u>17,217,749</u>	<u>16,837,946</u>	<u>379,803</u>	2.26 %
Total	<u>\$ 29,077,889</u>	<u>\$ 29,367,296</u>	<u>\$ (289,407)</u>	(0.99) %

Revenues - Fiscal Year 2012



Revenues - Fiscal Year 2011



The table that follows assists in illustrating the expenditures of the general fund.

	2012 Amount	2011 Amount	Increase (Decrease)	Percentage Change
Expenditures				
Instruction	\$ 19,071,160	\$ 20,190,463	\$ (1,119,303)	(5.54) %
Support services	9,695,571	10,220,820	(525,249)	(5.14) %
Extracurricular activities	440,147	385,433	54,714	14.20 %
Facilities acquisition and construction	<u>391,121</u>	<u>495,439</u>	<u>(104,318)</u>	(21.06) %
Total	<u>\$ 29,597,999</u>	<u>\$ 31,292,155</u>	<u>\$ (1,694,156)</u>	(5.41) %

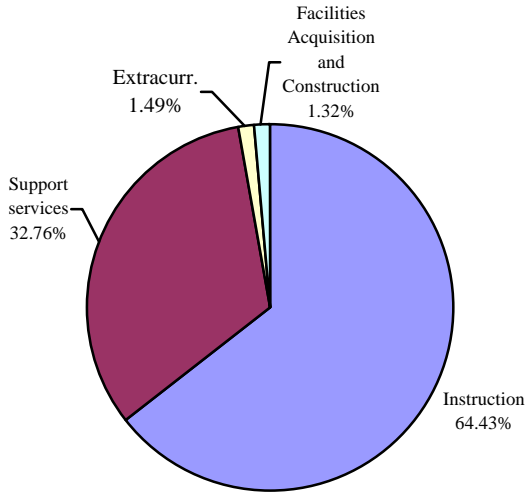
Expenditures of the general fund decreased \$1,694,156 or 5.41%. Instruction expenditures decreased \$1,119,303 or 5.54% and support services expenditures decreased \$525,249 or 5.14%. The decrease in instruction expenditures from the prior year is related to lower expenditures for salaries, employee benefits, and materials and supplies despite increased expenditures for purchased services.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

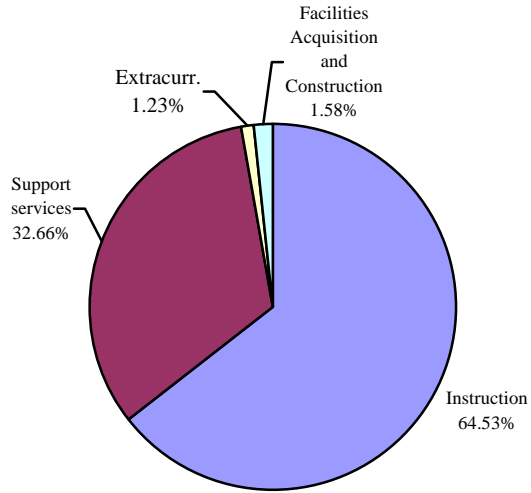
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

Lower employee wages and benefits also contributed to the \$525,249 decrease in support services expenditures during fiscal year 2012. The District also recognized expenditures for extracurricular activities during 2012 that were 14.20% higher than in the prior year as a result of increased wages and salaries related to the District's sports programs. Additionally, the District expended 21.06% less during fiscal year 2012 for repairs recognized as facilities acquisition and construction expenditures in the general fund.

Expenditures - Fiscal Year 2012



Expenditures - Fiscal Year 2011



Building Fund

The building fund had \$2,825,595 in revenues and other financing sources and \$913,695 in expenditures. The building fund's fund balance increased \$1,911,900 from a balance of \$7,270,944 to \$9,182,844.

Classroom Facilities Fund

The classroom facilities fund had \$6,645,167 in revenues and \$5,525,996 in expenditures and other financing uses. The classroom facilities fund's fund balance increased \$1,119,171 from a balance of \$19,922,862 to \$21,042,033.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, cash disbursements and encumbrances. The most significant budgeted fund is the general fund.

The District uses site-based budgeting, which is designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$28,081,453, which matched exactly to original budget estimates. Actual revenues and other financing sources were \$29,117,160, which is \$1,035,707 more than final budgeted resources.

General fund original appropriations and other financing uses of \$31,253,075 matched exactly to the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2012 totaled \$29,657,271, which was \$1,595,804 less than the final budget appropriations and other financing uses.

Capital Assets and Debt Administration

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

Capital Assets

At the end of fiscal year 2012, the District had \$8,293,214 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Of this total, \$8,255,886 was reported in governmental activities and \$37,328 was reported in business-type activities. The following table shows June 30, 2012 balances compared to June 30, 2011.

	Capital Assets at June 30 (Net of Depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 395,721	\$ 395,721	\$ -	\$ -	\$ 395,721	\$ 395,721
Land improvements	426,810	329,679	-	-	426,810	329,679
Building and improvements	1,623,372	1,716,143	-	-	1,623,372	1,716,143
Furniture and equipment	1,067,246	1,195,654	37,328	38,275	1,104,574	1,233,929
Vehicles	409,115	452,420	-	-	409,115	452,420
Construction in progress	4,354,389	792,684	-	-	4,354,389	792,684
Total	<u>\$ 8,276,653</u>	<u>\$ 4,882,301</u>	<u>\$ 37,328</u>	<u>\$ 38,275</u>	<u>\$ 8,313,981</u>	<u>\$ 4,920,576</u>

The increase in capital assets, net of depreciation, in the governmental activities is attributable to current year additions of \$3,891,076, \$3,561,705 of which related to construction in progress, exceeding current year depreciation of \$338,134 and dispositions during 2012 of various assets with a net book value totaling \$158,590.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2012, the District had \$26,128,500 in general obligation bonds, capital appreciation bonds and accreted interest obligations outstanding. Of this balance, \$5,000 is due within one year and \$26,123,500 is due in more than one year.

The following table summarizes the bonds and accreted interest obligations outstanding at June 30, 2012 and June 30, 2011.

	Governmental Activities 2012	Governmental Activities 2011
	2012	2011
General obligation bonds	\$ 24,990,000	\$ 24,990,000
Capital appreciation bonds	810,138	810,138
Accreted interest	328,362	97,300
Total	<u>\$ 26,128,500</u>	<u>\$ 25,897,438</u>

At June 30, 2012, the District's overall legal debt margin was \$3,830,284 and its unvoted debt margin was \$324,066. See Note 9 to the basic financial statements for additional information on the District's debt administration.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

Current Financial Related Activities

The District ended fiscal year 2012 with an unencumbered budgetary-basis balance of \$6,195,649 in the general fund. The District has been able to reduce staff and expenditures over the past five fiscal years to avoid a deficit situation, but began deficit spending in calendar year 2010. A 6.9 mil operating levy that was renewed in May of 2007 was again put to the voters for renewal in 2012, and it was passed. Based on the assumptions at this time, the District projects an unreserved balance of \$4,154,385 for fiscal year 2013 and \$883,674 for fiscal year 2014.

The District developed a strategic plan in 2008. The facilities portion of the plan suggested moving the ninth grade students to the high school for the 2008-2009 school year, which was accomplished. The school was also in line to receive funds through the Ohio School Facilities Commission (OSFC) program. The Board completed a year long process with the community on whether to build new facilities and accept the OSFC plan. The Board decided, based on the input from the community, to put a bond issue on the November 3, 2009 ballot asking for a 7 mil levy for the construction of a pre-kindergarten to eighth grade building and a ½ mil maintenance levy. The levy was defeated by a wide margin, so the Board went back to the community and revised the bond issue to build a fifth through eighth grade middle school building and put it on the ballot in May of 2010. The levy was defeated by 41 votes. The District then put the same issue back on the ballot at a special election in August of 2010. This time the issue passed by over 700 votes. The District is currently in the process of constructing a new 5-8 grade middle school building on the site of the Wooster Heights Elementary School. The Wooster Heights Elementary School was razed in the summer of 2011 and the new 5-8 grade middle school is projected to be completed by January of 2014.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mrs. Robin Klenk, Treasurer of Madison Local School District, at 1379 Grace Street, Mansfield, Ohio, 44905-2742.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 42,577,902	\$ 394,238	\$ 42,972,140
Cash in segregated accounts	32,563	-	32,563
Receivables:			
Taxes	9,980,472	-	9,980,472
Accounts	6,006	-	6,006
Intergovernmental	2,543,513	1,743	2,545,256
Accrued interest	21,720	-	21,720
Materials and supplies inventory	11,055	-	11,055
Unamortized bond issuance costs	434,005	-	434,005
Internal balances	14,851	(14,851)	-
Capital assets:			
Land and construction in progress	4,750,110	-	4,750,110
Depreciable capital assets, net	3,526,543	37,328	3,563,871
Total capital assets, net	8,276,653	37,328	8,313,981
 Total assets	 63,898,740	 418,458	 64,317,198
Liabilities:			
Accounts payable	3,397	-	3,397
Contracts payable	620,515	-	620,515
Retainage payable	32,563	-	32,563
Accrued wages and benefits	2,859,292	44,280	2,903,572
Pension obligation payable	585,346	35,715	621,061
Intergovernmental payable	100,291	6,614	106,905
Accrued interest payable	144,032	-	144,032
Claims payable	670,000	-	670,000
Unearned revenue	6,948,015	-	6,948,015
Long-term liabilities:			
Due within one year	435,371	22,412	457,783
Due in more than one year	29,730,395	8,743	29,739,138
 Total liabilities	 42,129,217	 117,764	 42,246,981
Net Assets:			
Invested in capital assets, net of related debt	4,566,838	37,328	4,604,166
Restricted for:			
Capital projects	8,630,783	-	8,630,783
Debt service	320,821	-	320,821
Classroom facilities maintenance	413,179	-	413,179
Locally funded programs	4,702	-	4,702
Federally funded programs	1,576	-	1,576
Student activities	60,887	-	60,887
Other purposes	276,253	-	276,253
Unrestricted	7,494,484	263,366	7,757,850
 Total net assets	 \$ 21,769,523	 \$ 300,694	 \$ 22,070,217

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental activities:			
Instruction:			
Regular	\$ 12,464,580	\$ 1,343,561	\$ 246,465
Special	3,625,553	201,919	1,975,157
Vocational	2,967,009	92,914	557,526
Adult/continuing	90,358	-	86,203
Other	2,719,438	-	-
Support services:			
Pupil	1,320,351	-	103,784
Instructional staff	1,985,779	131	670,303
Board of education	43,982	-	-
Administration	2,487,434	1,478	118,361
Fiscal	662,743	-	-
Business	72,654	368	163
Operations and maintenance	3,202,761	3,320	12,440
Pupil transportation	1,680,463	17,690	120,741
Central	259,350	-	44,511
Operation of non-instructional services:			
Other non-instructional services	458,328	-	439,792
Food service operations	1,344,705	370,062	1,020,893
Extracurricular activities	840,843	135,962	61,621
Interest and fiscal charges	1,904,210	-	-
Total governmental activities	38,130,541	2,167,405	5,457,960
Business-type activities:			
Adult education	1,167,456	952,862	191,107
Preschool	519,284	420,246	30,967
Total business-type activities	1,686,740	1,373,108	222,074
Totals	\$ 39,817,281	\$ 3,540,513	\$ 5,680,034

General Revenues:

Property taxes levied for:
General fund
Special revenue
Grants and entitlements not restricted
to specific programs
Payments in lieu of taxes
Investment earnings
Miscellaneous
Total general revenues
Transfers
Total general revenues and transfers
Change in net assets
Net assets at beginning of year
Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Assets**

Governmental Activities	Business-Type Activities	Total
\$ (10,874,554)	\$ -	\$ (10,874,554)
(1,448,477)	-	(1,448,477)
(2,316,569)	-	(2,316,569)
(4,155)	-	(4,155)
(2,719,438)	-	(2,719,438)
(1,216,567)	-	(1,216,567)
(1,315,345)	-	(1,315,345)
(43,982)	-	(43,982)
(2,367,595)	-	(2,367,595)
(662,743)	-	(662,743)
(72,123)	-	(72,123)
(3,187,001)	-	(3,187,001)
(1,542,032)	-	(1,542,032)
(214,839)	-	(214,839)
(18,536)	-	(18,536)
46,250	-	46,250
(643,260)	-	(643,260)
(1,904,210)	-	(1,904,210)
(30,505,176)	-	(30,505,176)
-	(23,487)	(23,487)
-	(68,071)	(68,071)
-	(91,558)	(91,558)
(30,505,176)	(91,558)	(30,596,734)
9,726,670	-	9,726,670
140,982	-	140,982
16,332,377	-	16,332,377
315,784	-	315,784
131,196	-	131,196
228,443	-	228,443
26,875,452	-	26,875,452
(25,000)	25,000	-
26,850,452	25,000	26,875,452
(3,654,724)	(66,558)	(3,721,282)
25,424,247	367,252	25,791,499
\$ 21,769,523	\$ 300,694	\$ 22,070,217

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and investments	\$ 6,405,276	\$ 9,508,971	\$ 21,236,337	\$ 1,386,071	\$ 38,536,655
Cash in segregated accounts	-	6,550	26,013	-	32,563
Receivables:					
Taxes.	9,842,228	-	-	138,244	9,980,472
Accounts	4,662	-	-	1,329	5,991
Intergovernmental.	42,627	-	2,319,285	181,601	2,543,513
Accrued interest	8,944	4,747	7,653	376	21,720
Materials and supplies inventory.	-	-	-	11,055	11,055
Total assets	<u>\$ 16,303,737</u>	<u>\$ 9,520,268</u>	<u>\$ 23,589,288</u>	<u>\$ 1,718,676</u>	<u>\$ 51,131,969</u>
Liabilities:					
Accounts payable	\$ 1,770	\$ -	\$ -	\$ 1,627	\$ 3,397
Contracts payable.	-	323,357	297,158	-	620,515
Retainage payable.	-	6,550	26,013	-	32,563
Accrued wages and benefits.	2,519,714	-	-	339,578	2,859,292
Compensated absences payable	38,047	-	-	139	38,186
Pension obligation payable	510,713	-	-	74,633	585,346
Intergovernmental payable	86,216	-	-	14,075	100,291
Deferred revenue	1,498,805	3,572	2,228,029	204,684	3,935,090
Unearned revenue.	6,856,147	-	-	91,868	6,948,015
Total liabilities.	<u>11,511,412</u>	<u>333,479</u>	<u>2,551,200</u>	<u>726,604</u>	<u>15,122,695</u>
Fund Balances:					
Nonspendable:					
Materials and supplies inventory.	-	-	-	11,055	11,055
Restricted:					
Debt service	-	-	-	464,477	464,477
Capital improvements	-	9,186,789	21,038,088	-	30,224,877
Classroom facilities maintenance	-	-	-	390,472	390,472
Food service operations	-	-	-	294,913	294,913
Non-public schools	-	-	-	17,844	17,844
Targeted academic assistance	-	-	-	370	370
Extracurricular.	-	-	-	60,887	60,887
Other purposes.	-	-	-	10,196	10,196
Assigned:					
Student instruction	5,750	-	-	-	5,750
Student and staff support.	60,238	-	-	-	60,238
Subsequent year appropriations	2,391,566	-	-	-	2,391,566
School supplies	51,483	-	-	-	51,483
Other purposes.	65,130	-	-	-	65,130
Unassigned (deficit)	2,218,158	-	-	(258,142)	1,960,016
Total fund balances	<u>4,792,325</u>	<u>9,186,789</u>	<u>21,038,088</u>	<u>992,072</u>	<u>36,009,274</u>
Total liabilities and fund balances	<u>\$ 16,303,737</u>	<u>\$ 9,520,268</u>	<u>\$ 23,589,288</u>	<u>\$ 1,718,676</u>	<u>\$ 51,131,969</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

Total governmental fund balances		\$	36,009,274
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			8,276,653
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	1,484,768	
Accrued interest receivable		10,871	
Intergovernmental receivable		<u>2,439,451</u>	
Total			3,935,090
Unamortized premiums on bond issuances are not recognized in the funds.			(2,169,377)
Unamortized bond issuance costs are not recognized in the funds.			434,005
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. The net assets of the internal service fund, including internal balances of \$14,851, are:			
			3,386,113
Long-term liabilities, such as compensated absences payable and bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds payable		(26,128,500)	
Compensated absences payable		(1,829,703)	
Accrued interest payable		<u>(144,032)</u>	
Total			<u>(28,102,235)</u>
Net assets of governmental activities		\$	<u>21,769,523</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 9,595,542	\$ -	\$ -	\$ 138,677	\$ 9,734,219
Tuition	1,411,419	-	-	-	1,411,419
Transportation fees	17,690	-	-	-	17,690
Charges for services	5	-	-	370,062	370,067
Earnings on investments	61,104	24,637	44,013	2,684	132,438
Extracurricular	4,322	-	-	137,626	141,948
Classroom materials and fees	115,612	-	-	-	115,612
Rental income	3,320	-	-	-	3,320
Contributions and donations	5	-	-	16,629	16,634
Contract services	97,509	-	-	-	97,509
Other local revenues	237,828	-	450	56,441	294,719
Payments in lieu of taxes	315,784	-	-	-	315,784
Intergovernmental - State	17,208,610	-	6,600,704	626,601	24,435,915
Intergovernmental - federal	9,139	-	-	4,568,807	4,577,946
Total revenues	<u>29,077,889</u>	<u>24,637</u>	<u>6,645,167</u>	<u>5,917,527</u>	<u>41,665,220</u>
Expenditures:					
Current:					
Instruction:					
Regular	10,845,639	-	-	980,555	11,826,194
Special	2,765,112	-	-	796,417	3,561,529
Vocational	2,791,409	-	-	48,055	2,839,464
Adult/continuing	-	-	-	86,194	86,194
Other	2,669,000	-	-	-	2,669,000
Support services:					
Pupil	1,168,450	-	-	104,715	1,273,165
Instructional staff	1,190,001	-	-	681,364	1,871,365
Board of education	43,998	-	-	-	43,998
Administration	2,172,197	-	-	120,531	2,292,728
Fiscal	647,119	-	-	3,001	650,120
Business	56,874	-	-	471	57,345
Operations and maintenance	2,729,221	-	-	-	2,729,221
Pupil transportation	1,472,867	-	-	39,217	1,512,084
Central	214,844	-	-	44,506	259,350
Operation of non-instructional services:					
Other non-instructional services	-	-	-	437,709	437,709
Food service operations	-	-	-	1,303,074	1,303,074
Extracurricular activities	440,147	-	-	174,178	614,325
Facilities acquisition and construction	391,121	909,750	2,728,983	-	4,029,854
Debt service:					
Interest and fiscal charges	-	-	-	1,728,385	1,728,385
Total expenditures	<u>29,597,999</u>	<u>909,750</u>	<u>2,728,983</u>	<u>6,548,372</u>	<u>39,785,104</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(520,110)</u>	<u>(885,113)</u>	<u>3,916,184</u>	<u>(630,845)</u>	<u>1,880,116</u>
Other financing sources (uses):					
Transfers in	-	2,800,958	-	-	2,800,958
Transfers (out)	(25,000)	-	(2,800,958)	-	(2,825,958)
Total other financing sources (uses)	<u>(25,000)</u>	<u>2,800,958</u>	<u>(2,800,958)</u>	<u>-</u>	<u>(25,000)</u>
Net change in fund balances	(545,110)	1,915,845	1,115,226	(630,845)	1,855,116
Fund balances at beginning of year	5,337,435	7,270,944	19,922,862	1,625,237	34,156,478
Decrease in reserve for inventory	-	-	-	(2,320)	(2,320)
Fund balances at end of year	<u>\$ 4,792,325</u>	<u>\$ 9,186,789</u>	<u>\$ 21,038,088</u>	<u>\$ 992,072</u>	<u>\$ 36,009,274</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

Net change in fund balances - total governmental funds \$ 1,855,116

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital asset additions	\$ 3,891,076	
Current year depreciation	(338,134)	
Total		3,552,942

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (158,590)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes	133,433	
Earnings on investments	(931)	
Intergovernmental revenue	(7,296,905)	
Miscellaneous	33,152	
Total		(7,131,251)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed. (2,320)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in increased interest being reported in the statement of activities:

Accreted interest on "capital appreciation" bonds	(231,062)	
Amortization of bond premium	69,052	
Amortization of bond issuance costs	(13,815)	
Total		(175,825)

The internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net expense of the internal service fund is allocated among the governmental activities. (1,198,525)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. (396,271)

Change in net assets of governmental activities \$ (3,654,724)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 9,925,000	\$ 9,925,000	\$ 9,905,215	\$ (19,785)
Tuition	1,563,500	1,563,500	1,411,419	(152,081)
Transportation fees	15,000	15,000	17,207	2,207
Earnings on investments	60,000	60,000	60,820	820
Rental income	3,500	3,500	3,320	(180)
Contributions and donations	2,000	2,000	5	(1,995)
Contract services	1,500	1,500	17,678	16,178
Other local revenues	60,000	60,000	119,079	59,079
Payments in lieu of taxes	200,000	200,000	315,784	115,784
Intergovernmental - state	16,233,953	16,233,953	17,203,498	969,545
Intergovernmental - federal	10,000	10,000	8,788	(1,212)
Total revenues	28,074,453	28,074,453	29,062,813	988,360
Expenditures:				
Current:				
Instruction:				
Regular	14,681,009	14,681,009	10,761,118	3,919,891
Special	2,265,070	2,265,070	2,751,451	(486,381)
Vocational	2,480,024	2,480,024	2,783,060	(303,036)
Other	2,415,893	2,415,893	2,668,587	(252,694)
Support services:				
Pupil	1,099,310	1,099,310	1,185,035	(85,725)
Instructional staff	1,107,138	1,107,138	1,180,157	(73,019)
Board of education	54,955	54,955	43,800	11,155
Administration	2,000,324	2,000,324	2,263,881	(263,557)
Fiscal	477,904	477,904	635,217	(157,313)
Business	59,178	59,178	56,878	2,300
Operations and maintenance	2,573,829	2,573,829	2,738,473	(164,644)
Pupil transportation	1,095,863	1,095,863	1,457,400	(361,537)
Central	94,577	94,577	284,074	(189,497)
Extracurricular activities	377,501	377,501	430,675	(53,174)
Facilities acquisition and construction	445,500	445,500	391,121	54,379
Total expenditures	31,228,075	31,228,075	29,630,927	1,597,148
Excess of expenditures over revenues	(3,153,622)	(3,153,622)	(568,114)	2,585,508
Other financing sources (uses):				
Refund of prior year expenditures	5,000	5,000	377	(4,623)
Refund of prior year receipts	-	-	(1,344)	(1,344)
Transfers (out)	(25,000)	(25,000)	(25,000)	-
Sale of assets	2,000	2,000	53,970	51,970
Total other financing sources (uses)	(18,000)	(18,000)	28,003	46,003
Net change in fund balance	(3,171,622)	(3,171,622)	(540,111)	2,631,511
Fund balance at beginning of year	6,732,685	6,732,685	6,732,685	-
Prior year encumbrances appropriated	3,075	3,075	3,075	-
Fund balance at end of year	\$ 3,564,138	\$ 3,564,138	\$ 6,195,649	\$ 2,631,511

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
Assets:		
Current assets:		
Equity in pooled cash and investments	\$ 394,238	\$ 4,041,247
Receivables:		
Accounts	-	15
Intergovernmental	1,743	-
Total current assets	395,981	4,041,262
Noncurrent assets:		
Capital assets:		
Depreciable capital assets, net	37,328	-
Total assets	433,309	4,041,262
Liabilities:		
Current liabilities:		
Accrued wages and benefits	44,280	-
Compensated absences	22,412	-
Pension obligation payable	35,715	-
Intergovernmental payable	6,614	-
Claims payable	-	670,000
Total current liabilities	109,021	670,000
Long-term liabilities:		
Compensated absences	8,743	-
Total liabilities	117,764	670,000
Net assets:		
Invested in capital assets	37,328	-
Unrestricted	278,217	3,371,262
Total net assets	315,545	\$ 3,371,262
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds		
	(14,851)	
Net assets of business-type activities	\$ 300,694	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
Operating revenues:		
Tuition and fees.	\$ 771,401	\$ -
Sales/charges for services.	420,246	5,417,268
Other	181,461	-
Total operating revenues	1,373,108	5,417,268
Operating expenses:		
Personal services	1,210,529	-
Purchased services.	177,169	895,425
Materials and supplies.	261,086	-
Other operating expenses	2,868	-
Depreciation.	7,382	-
Claims expense	-	5,748,074
Total operating expenses.	1,659,034	6,643,499
Operating loss	(285,926)	(1,226,231)
Nonoperating revenues:		
Grants and subsidies.	222,074	-
Total nonoperating revenues.	222,074	-
Net income before transfers	(63,852)	(1,226,231)
Transfer in	25,000	-
Change in net assets.	(38,852)	(1,226,231)
Net assets at beginning of year	354,397	4,597,493
Net assets at end of year.	315,545	\$ 3,371,262
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds	(27,706)	
Changes in net assets of business-type activities.	\$ (66,558)	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
Cash flows from operating activities:		
Cash received from tuition and fees	\$ 771,401	\$ -
Cash received from sales/charges for services	420,246	5,417,264
Cash received from other operations	181,461	-
Cash payments for personal services	(1,197,564)	-
Cash payments for purchased services	(192,384)	(895,425)
Cash payments for materials and supplies	(261,086)	-
Cash payments for other operating expenses	(2,868)	-
Cash payments for claims expense	-	(5,619,074)
	(280,794)	(1,097,235)
Net cash used in operating activities.		
Cash flows from noncapital financing activities:		
Cash received from grants and subsidies	226,830	-
Cash received from transfers in	25,000	-
	251,830	-
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(6,435)	-
	(6,435)	-
Net cash used in capital and related financing activities.		
Net decrease in cash and investments.		
	(35,399)	(1,097,235)
Cash and investments at beginning of year		
	429,637	5,138,482
Cash and investments at end of year.		
	\$ 394,238	\$ 4,041,247
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (285,926)	\$ (1,226,231)
Adjustments:		
Depreciation	7,382	-
Changes in assets and liabilities:		
(Increase) in accounts receivable	-	(4)
Decrease in accrued wages and benefits	(11,162)	-
Increase in compensated absences payable	15,940	-
Decrease in intergovernmental payable	(1,091)	-
Decrease in pension obligation payable	(5,937)	-
Increase in claims payable	-	129,000
	-	129,000
Net cash used in operating activities.		
	\$ (280,794)	\$ (1,097,235)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 4,713	\$ 33,578
Total assets.	4,713	\$ 33,578
Liabilities:		
Due to students.	-	\$ 33,578
Total liabilities	-	\$ 33,578
Net assets:		
Held in trust for scholarships	4,713	
Total net assets	\$ 4,713	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 2
Gifts and contributions	3,808
Total additions.	3,810
Deductions:	
Scholarships awarded	3,008
Change in net assets	802
Net assets at beginning of year	3,911
Net assets at end of year.	\$ 4,713

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Madison Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under a locally-elected five-member Board form of government and provides educational services as authorized by statute and further mandated by State and/or federal agencies. This Board controls the District's 6 instructional/support facilities staffed by 151 classified and 256 certified full-time teaching personnel, who provide services to 3,170 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided it does not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB guidance issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The District has elected not to apply this FASB guidance. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments/North Central Ohio Computer Cooperative (the "COG")

The COG is a jointly governed organization among 16 school districts, 1 educational service center and a career center. The COG is an association of public school districts within the boundaries of Ashland, Crawford, Richland, Marion, Morrow, Richland, Seneca, and Wyandot counties. The COG was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Each member school district supports the COG based on a per pupil charge dependent upon the software package utilized. The COG is governed by a Cooperative Assembly consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Cooperative Assembly. During fiscal year 2012, the District paid \$150,399 to the COG for various services. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

INSURANCE PURCHASING POOL

Workers' Compensation Group Rating Program

The District participates in a Workers' Compensation Group Rating Program (GRP) administered by Sheakley UniServe, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program.

Schools of Ohio Risk Sharing Authority

The District also participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the District's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Building fund - The building fund is used to account for the receipts and expenditures related to all special bond funds in the District and to account for receipts and expenditures involved in the replacement or updating of equipment essential for the instruction of students. Expenditures recorded in this fund represent the costs of acquiring and improving capital facilities, including real property.

Classroom facilities fund - The classroom facilities fund is a capital projects fund provided to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (b) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary funds:

Enterprise funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District's nonmajor enterprise funds are:

Preschool fund - This fund accounts for the financial transactions related to preschool operations of the District.

Adult education fund - This fund accounts for educational opportunities offered on a tuition basis to adults living within the community.

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The internal service fund of the District is used to account for employee health benefits self-insurance.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust funds are private-purpose trusts which account for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for student managed activities and Pell grants for adult education instruction tuition payments.

C. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the adult education and preschool enterprise operations are tuition charged for the programs. The primary operating expenses for the enterprise operations are administrative expenses required to run the programs. The principal operating revenues of the District's internal service fund are charges for services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2012 are recorded as deferred revenue on the governmental fund financial statements.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the operating statement as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds except agency funds. The specific timetable for fiscal year 2012 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for each fund. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted revenue amount in the budgetary statement reflect the amounts set forth in the original and final amended certificate of estimated resources issued for fiscal year 2012.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year). Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased or decreased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2012.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level, which is the legal level of control.

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the basic financial statements.

During fiscal year 2012, investments were limited to federal agency securities, U.S. treasury bills, nonnegotiable certificates of deposit and money markets. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$61,104, which includes \$29,199 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. An analysis of the District's accounts at year end is provided in Note 4.

G. Inventory

On the government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market value and donated commodities are presented at their entitlement value. On the government-wide financial statements, inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund financial statements and the consumption method on the government-wide statements.

On the fund financial statements, reported materials and supplies inventory is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Land improvements	20 years	N/A
Buildings and improvements	20 - 50 years	N/A
Furniture and equipment	5 - 20 years	5 - 20 years
Vehicles	8 years	N/A

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivable/payable". These amounts are eliminated in the governmental column of the statement of net assets. As of June 30, 2012, the District did not have any interfund balances outstanding.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the statement of net assets date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2012 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absences liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds payable are recognized as liabilities in the fund financial statements when due.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable in the general fund.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes includes amounts restricted for food service operations and special trusts.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. The District had no prepayments at June 30, 2012.

O. Parochial Schools

St. Mary and Mansfield Christian Schools operate within the District's boundaries. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District as directed by the parochial schools. The fiduciary responsibility of the District for these monies is reflected in a special revenue fund for financial reporting purposes.

P. Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Unamortized Bond Issuance Costs and Bond Premium

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

R. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Public school preschool	\$ 158
Education jobs	97,790
Title VI-B	77,274
Vocational education	207
Title I	64,028
Title VI-R	18,685

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items 1 or 2 above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the District had \$950 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and investments."

B. Cash in Segregated Accounts

At fiscal year end, \$32,563 was on deposit with an escrow for retainage held as part of the District's construction contracts. This amount is included in the carrying amount of deposits reported below and is reported on the financial statements as "cash in segregated accounts".

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$12,836,113. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$6,900,356 of the District's bank balance of \$8,495,285 was exposed to custodial risk as discussed below, while \$1,594,929 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

D. Investments

As of June 30, 2012, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
Money market	\$ 383,030	\$ 383,030	\$ -	\$ -	\$ -	\$ -
FFCB	2,220,489	805,217	303,684	299,939	-	811,649
FHLB	13,298,691	1,726,942	4,617,607	4,750,265	999,440	1,204,437
FHLB - discount	6,524,935	6,524,935	-	-	-	-
FHLMC	1,179,873	876,015	-	-	103,331	200,527
FHLMC - discount	199,998	199,998	-	-	-	-
FNMA	4,214,961	2,957,918	-	956,280	-	300,763
U.S. treasury bills	<u>2,183,954</u>	<u>1,034,980</u>	<u>-</u>	<u>1,148,974</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 30,205,931</u>	<u>\$ 14,509,035</u>	<u>\$ 4,921,291</u>	<u>\$ 7,155,458</u>	<u>\$ 1,102,771</u>	<u>\$ 2,517,376</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The federal agency securities and U.S. treasury bill were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned the U.S. Government money markets an AAAM money market rating. The District has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities and U.S. treasury bill are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agency but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2012:

<u>Investment types</u>	<u>Fair Value</u>	<u>% of Total</u>
Money market	\$ 383,030	1.27
FFCB	2,220,489	7.35
FHLB	13,298,691	44.03
FHLB - discount	6,524,935	21.60
FHLMC	1,179,873	3.91
FHLMC - discount	199,998	0.66
FNMA	4,214,961	13.95
U.S. treasury bills	<u>2,183,954</u>	<u>7.23</u>
Total	<u>\$ 30,205,931</u>	<u>100.00</u>

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 12,836,113
Investments	30,205,931
Cash on hand	<u>950</u>
Total	<u>\$ 43,042,994</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 42,610,465
Business-type activities	394,238
Private-purpose trust funds	4,713
Agency funds	<u>33,578</u>
Total	<u>\$ 43,042,994</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2012, consisted of the following, as reported on the fund statements:

Transfer from general fund to:	
Nonmajor enterprise funds	<u>\$ 25,000</u>
Transfer from classroom facilities fund to:	
Building fund	<u>\$ 2,800,958</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers to the nonmajor enterprise funds were made during the year to provide additional resources to the District's adult education fund (a nonmajor enterprise fund). Transfers to the building fund from the classroom facilities fund were made to move bond proceeds for the District's locally funded building project to the fund that accounts for the costs of this project.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities. Transfers between governmental activities and business-type activities are reported as transfers on the statement of activities. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$1,524,020 in the general fund and \$23,669 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$1,833,694 in the general fund and \$28,109 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been deferred.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 330,660,350	96.51	\$ 311,440,690	96.10
Public utility personal	<u>11,959,500</u>	<u>3.49</u>	<u>12,625,360</u>	<u>3.90</u>
Total	<u>\$ 342,619,850</u>	<u>100.00</u>	<u>\$ 324,066,050</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$60.90		\$60.90	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2012 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - RECEIVABLES - (Continued)

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 9,980,472
Accounts	6,006
Intergovernmental	2,543,513
Accrued interest	<u>21,720</u>
Total receivables	<u>\$ 12,551,711</u>

Business-type activities:

Intergovernmental	\$ <u>1,743</u>
Total receivables	<u>\$ 1,743</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year except the portion of intergovernmental receivable related to the District's Ohio School Facilities Commission building construction project, which will be distributed to the District over the life of the project.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 8 - CAPITAL ASSETS

A. Governmental capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Balance <u>06/30/11</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/12</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 395,721	\$ -	\$ -	\$ 395,721
Construction in progress	<u>792,684</u>	<u>3,561,705</u>	<u>-</u>	<u>4,354,389</u>
Total capital assets, not being depreciated	<u>1,188,405</u>	<u>3,561,705</u>	<u>-</u>	<u>4,750,110</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	915,642	128,150	(9,435)	1,034,357
Buildings/improvements	12,339,890	69,649	(630,672)	11,778,867
Furniture/equipment	4,132,231	101,772	(885,746)	3,348,257
Vehicles	<u>2,114,702</u>	<u>29,800</u>	<u>(79,020)</u>	<u>2,065,482</u>
Total capital assets, being depreciated	<u>19,502,465</u>	<u>329,371</u>	<u>(1,604,873)</u>	<u>18,226,963</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(585,963)	(24,179)	2,595	(607,547)
Buildings/improvements	(10,623,747)	(153,923)	622,175	(10,155,495)
Furniture/equipment	(2,936,577)	(95,462)	751,028	(2,281,011)
Vehicles	<u>(1,662,282)</u>	<u>(64,570)</u>	<u>70,485</u>	<u>(1,656,367)</u>
Total accumulated depreciation	<u>(15,808,569)</u>	<u>(338,134)</u>	<u>1,446,283</u>	<u>(14,700,420)</u>
Governmental activities capital assets, net	<u>\$ 4,882,301</u>	<u>\$ 3,552,942</u>	<u>\$ (158,590)</u>	<u>\$ 8,276,653</u>

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 56,809
Special	5,294
Vocational	95,354
Adult/continuing	4,164
Support services:	
Pupil	2,113
Instructional staff	11,708
Administration	6,970
Operations and maintenance	46,342
Pupil transportation	59,288
Food service operations	11,016
Extracurricular activities	<u>39,076</u>
Total depreciation expense	<u>\$ 338,134</u>

B. Business-type capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	<u>Balance</u> <u>6/30/2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2012</u>
Business-type activities:				
<i>Capital assets, being depreciated:</i>				
Furniture/equipment	\$ 66,523	\$ 6,435	\$ -	\$ 72,958
Less: accumulated depreciation	<u>(28,248)</u>	<u>(7,382)</u>	<u>-</u>	<u>(35,630)</u>
Business-type activities capital assets, net	<u>\$ 38,275</u>	<u>\$ (947)</u>	<u>\$ -</u>	<u>\$ 37,328</u>

Depreciation expense was charged to business-type funds as follows:

Adult Education	<u>\$ 7,382</u>
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**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 9 - LONG-TERM OBLIGATIONS

A. During fiscal year 2012, the following changes occurred in long-term obligations:

	Balance			Balance	Amounts
	<u>06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/12</u>	<u>Due in</u>
					<u>One Year</u>
Governmental activities:					
General obligation bonds - series 2010					
Current interest bonds	\$ 24,990,000	\$ -	\$ -	\$ 24,990,000	\$ 5,000
Capital appreciation bonds	810,138	-	-	810,138	-
Accreted interest	<u>97,300</u>	<u>231,062</u>	<u>-</u>	<u>328,362</u>	<u>-</u>
Total general obligation bonds	<u>25,897,438</u>	<u>231,062</u>	<u>-</u>	<u>26,128,500</u>	<u>5,000</u>
Compensated absences payable	<u>1,601,461</u>	<u>650,736</u>	<u>(384,308)</u>	<u>1,867,889</u>	<u>430,371</u>
Total governmental activities long-term liabilities	<u>\$ 27,498,899</u>	<u>\$ 881,798</u>	<u>\$ (384,308)</u>	<u>27,996,389</u>	<u>\$ 435,371</u>
Unamortized premium - series 2010				<u>2,169,377</u>	
				<u>\$ 30,165,766</u>	
Business-type activities:					
Compensated absences	<u>\$ 15,215</u>	<u>\$ 30,492</u>	<u>\$ (14,552)</u>	<u>\$ 31,155</u>	<u>\$ 22,412</u>
Total business-type activities long-term liabilities	<u>\$ 15,215</u>	<u>\$ 30,492</u>	<u>\$ (14,552)</u>	<u>\$ 31,155</u>	<u>\$ 22,412</u>

Compensated Absences - Compensated absences will be paid from the fund from which the employee is paid, which for the District is primarily the general fund and nonmajor enterprise funds.

Series 2010 School Improvement General Obligation Bonds - During fiscal year 2011, the District issued \$25,800,138 in general obligation bonds, for the purpose of improving school facilities. Principal and interest payments are made from the debt service fund (a nonmajor governmental fund).

The issue is comprised of both current interest bonds, par value \$24,990,000, and capital appreciation bonds par value \$810,138. The interest rates on the current interest bonds range from 2.00%-7.30%. The capital appreciation bonds mature on December 1, 2014 (approximate initial offering yield to maturity 2.62%), December 1, 2015 (approximate initial offering yield to maturity 2.89%), December 1, 2016 (approximate initial offering yield to maturity 3.15%), December 1, 2017 (approximate initial offering yield to maturity 3.49%), December 1, 2018 (approximate initial offering yield to maturity 3.81%), December 1, 2019 (approximate initial offering yield to maturity 4.10%), December 1, 2020 (approximate initial offering yield to maturity 4.35%) and December 1, 2021 (approximate initial offering yield to maturity 4.55%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$4,115,000. Total accreted interest of \$328,362 for series 2010 has been included on the statement of net assets at June 30, 2012.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2043. At June 30, 2012, the District had \$23,825,695 of unspent bond proceeds remaining on the bond issue.

- B.** The following is a description of the District's future annual debt service requirements to maturity for bonds payable:

Fiscal Year	Current Interest - Series 2010			Capital Appreciation - Series 2010		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 5,000	\$ 1,728,335	\$ 1,733,335	\$ -	\$ -	\$ -
2014	385,000	1,724,435	2,109,435	-	-	-
2015	-	1,720,585	1,720,585	165,471	244,529	410,000
2016	-	1,720,585	1,720,585	147,973	312,027	460,000
2017	-	1,720,585	1,720,585	123,067	356,933	480,000
2018 - 2022	-	8,602,925	8,602,925	373,627	2,391,373	2,765,000
2023 - 2027	-	8,602,925	8,602,925	-	-	-
2028 - 2032	8,700,000	7,331,725	16,031,725	-	-	-
2033 - 2037	5,865,000	4,735,727	10,600,727	-	-	-
2038 - 2042	7,210,000	2,368,761	9,578,761	-	-	-
2043 - 2044	2,825,000	182,317	3,007,317	-	-	-
Total	\$ 24,990,000	\$ 40,438,905	\$ 65,428,905	\$ 810,138	\$ 3,304,862	\$ 4,115,000

- C.** The series 2010 general obligation school improvement bonds require the District to make mandatory sinking fund deposits beginning December 1, 2021. The sinking fund deposits will result in a balloon principal payment of \$6,920,000 made on December 1, 2029. Sinking fund deposits will be made on December 1, in the following fiscal years and in the following amounts.

Fiscal Year	Amounts Due	Amounts Deposited
2013	\$ -	\$ -
2014	-	-
2015	-	-
2016	-	-
2017	-	-
2018 - 2022	150,000	-
2023 - 2027	3,940,000	-
2028 - 2030	2,830,000	-
	<u>\$ 6,920,000</u>	<u>\$ -</u>

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
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NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

D. The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$3,830,284 (including available funds of \$464,477) and an unvoted debt margin of \$324,066.

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn up to 25 days of vacation per year, depending upon the length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Administrators who are contracted to work 260 days in a year are given 20 days of vacation per year by contract. Any unused vacation days at the end of the contract are forfeited.

Administrators, teachers, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to 280 days. Upon retirement, full-time certified and classified employees receive a payment of 25% of their unused sick leave balance up to a maximum of 70 days.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability: Each occurrence	SORSA	\$12,000,000	\$ 0
Property/Boiler and Machinery	SORSA	103,754,973	500
Automobile: Bodily Injury & Property Damage	SORSA	11,000,000	0

Settled claims resulting from these risks have not exceeded commercial insurance coverage nor has insurance coverage been significantly reduced in any of the past three fiscal years.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Health Care Self-Insurance Program

The District provides the following insurance coverage for employees, which is administered through Medical Mutual of Ohio. The District has also purchased a commercial "stop-loss" policy for its self-insurance plan with a \$100,000 per covered person threshold.

Certified employees receive hospital, surgical and major medical, dental, vision and prescription drug coverage. The total monthly cost was \$431.69 for single coverage and \$1,154.09 for family coverage for fiscal year 2012. The District paid 97% of single and 94% of family coverage.

Classified employees receive hospital, surgical and major medical, dental, vision and prescription drug coverage. Two plans are available for classified employees to choose from. The monthly cost of the indemnity plan is \$582.88 for single coverage and \$1,577.77 for family coverage for fiscal year 2012.

The claims liability of \$670,000 reported in the internal service fund at June 30, 2012, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by GASB Statement No. 30, "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2012	\$ 541,000	\$ 5,748,074	\$ (5,619,074)	\$ 670,000
2011	630,000	4,520,858	(4,609,858)	541,000

C. Workers' Compensation Group Rating Plan

For fiscal year 2012, the District participated in a Workers' Compensation Group Rating Program (GRP). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniServe, Inc. provides administrative, cost control and actuarial services to the GRP.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$450,846, \$428,857 and \$470,108, respectively; 68.77 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "*Publications*".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 12 - PENSION PLANS - (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,856,946, \$1,903,645 and \$1,881,354, respectively; 82.37 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$53,184 made by the District and \$37,988 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

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NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$74,037, \$107,481 and \$71,781, respectively; 68.77 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$26,625, \$27,598 and \$27,956, respectively; 68.77 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$142,842, \$146,434 and \$144,720, respectively; 82.37 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

	<u>General fund</u>
Budget basis	\$ (540,111)
Net adjustment for revenue accruals	(245,294)
Net adjustment for expenditure accruals	299,549
Net adjustment for other sources/uses	(53,003)
Funds budgeted elsewhere	(12,051)
Adjustment for encumbrances	<u>5,800</u>
GAAP basis	<u>\$ (545,110)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the voided checks fund, uniform school supplies fund, special rotary fund and the public school support fund.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 15 - CONTINGENCIES

A. Grants and Enrollment

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data; however, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 16 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	515,429
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying expenditures	(401,536)
Excess qualified expenditures from prior years	-
Current year offsets	(113,893)
Waiver granted by ODE	-
Prior year offset from bond proceeds	-
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u>\$ -</u>

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 16 - SET-ASIDES - (Continued)

During fiscal year 2011, the District issued \$25,800,138 in capital related school improvement bonds. These proceeds may be used to reduce capital acquisition to zero in future years. The amount presented for Prior Year Offset from Bond Proceeds is limited to the amount needed to reduce the reserve for capital improvement to zero. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods. None of the \$25,800,138 issuance had been used as offsets as of June 30, 2012.

NOTE 17 - CONTRACTUAL COMMITMENTS

As a result of construction in progress at June 30, 2012, the District had the following outstanding contractual commitments at fiscal year end:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Incurred</u>	<u>Amount Outstanding</u>
ABC Piping Co.	\$ 4,980,000	\$ -	\$ 4,980,000
Advanced Industrial Roofing	1,574,000	-	1,574,000
B&B Wrecking	332,098	(331,600)	498
Brewer Garrett Company	88,151	(22,919)	65,232
Burkett Restaurant Equipment	318,000	-	318,000
CTL Engineering	113,683	(24,967)	88,716
Cuyahoga Fence	69,700	(58,237)	11,463
Farnham Equipment Company	485,000	-	485,000
Fechko Excavating	568,049	(554,462)	13,587
Gandee and Associates	67,670	(28,515)	39,155
Garmann/Miller & Associates, Inc.	948,863	(197,041)	751,822
Jamison Well Drilling	395,579	(302,954)	92,625
K.E. McCartney Associates, Inc.	27,500	(20,625)	6,875
M Space Holdings	491,293	(240,367)	250,926
Mosser Construction	13,109,600	(268,235)	12,841,365
Pac-Van, Inc.	29,770	(14,065)	15,705
Quandel Construction Group	1,410,012	(257,693)	1,152,319
Safety Resources Company of Ohio	9,600	-	9,600
Standard Plumbing and Heating	1,228,900	-	1,228,900
Vaughn Industries, Inc.	3,719,500	-	3,719,500
	<u>\$ 29,966,968</u>	<u>\$ (2,321,680)</u>	<u>\$ 27,645,288</u>

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 18 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 5,750
Building	7,832,347
Classroom facilities	19,681,872
Other governmental	<u>2,248</u>
Total	<u>\$ 27,522,217</u>